

STATE OF LOUISIANA LEGISLATIVE AUDITOR

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**Municipal Facilities Revolving Loan Fund
Municipal Facilities Division
Department of Environmental Quality
State of Louisiana
Baton Rouge, Louisiana**

April 28, 1999



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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**MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 1998**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

April 28, 1999

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 1998

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OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
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March 16, 1999

Independent Auditor's Report
on the Financial Statements

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Louisiana Department of Environmental Quality - Municipal Facilities Division - Municipal Facilities Revolving Loan Fund (the Fund), as of and for the year ended June 30, 1998, as listed in the foregoing table of contents. These financial statements are the responsibility of the Municipal Facilities Revolving Loan Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the financial position and results of operations of the Municipal Facilities Revolving Loan Fund. These statements are not intended to present fairly the financial position of the State of Louisiana, or the Louisiana Department of Environmental Quality, or the Municipal Facilities Division, and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

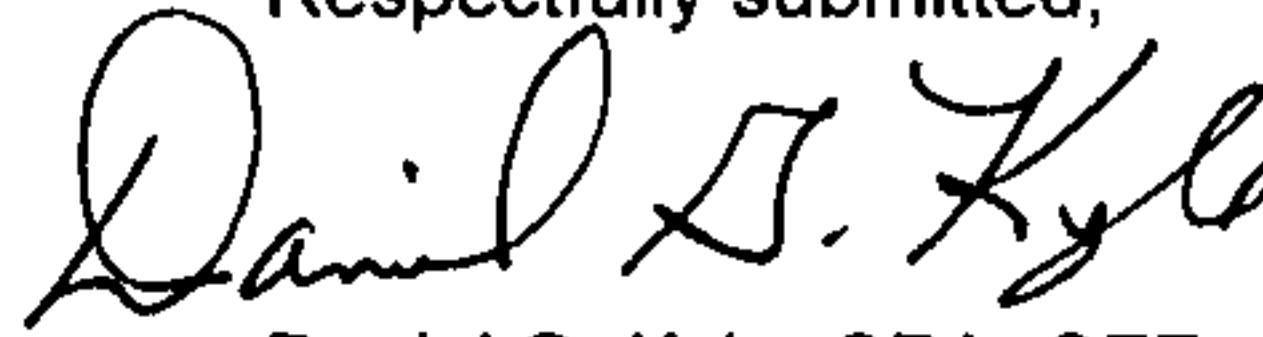
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Department of Environmental Quality - Municipal Facilities Division - Municipal Facilities Revolving Loan Fund as of June 30, 1998, and the results of its operations and the cash flows for the year then ended, in conformity with generally accepted accounting principles.

LEGISLATIVE AUDITOR

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Audit Report, June 30, 1998

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 1999, on our consideration of the Municipal Facilities Revolving Loan Fund's internal controls over compliance with certain laws and regulations and our tests of compliance with these laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, reading "Daniel G. Kyle". The signature is fluid and cursive, with the first name "Daniel" being the most prominent.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

VWW:WMB:RCL:ss

[MFRLF]

MUNICIPAL FACILITIES REVOLVING LOAN FUND
 MUNICIPAL FACILITIES DIVISION
 DEPARTMENT OF ENVIRONMENTAL QUALITY
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND

Balance Sheet, June 30, 1998

ASSETS

Current assets:

Cash in state treasury (note 2)	\$27,527,295
Receivables - due from others (note 3)	<u>3,911,093</u>
Total current assets	31,438,388

Long-term loans receivable (note 4)	<u>132,399,860</u>
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TOTAL ASSETS	<u><u>\$163,838,248</u></u>
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LIABILITIES AND FUND EQUITY

Current liabilities:

Accounts payable and accrued expenses	\$60,328
Reimbursements due to municipalities for construction (note 5)	<u>3,945,293</u>
Total current liabilities	<u>4,005,621</u>

Fund Equity: (note 7)

Contributed capital:

Environmental Protection Agency	124,632,614
State of Louisiana	23,753,586

Retained earnings - unreserved	<u>11,446,427</u>
Total fund equity	<u>159,832,627</u>

TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$163,838,248</u></u>
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The accompanying notes are an integral part of this statement.

Statement B

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Revenues, Expenses, and
Changes in Retained Earnings
For the Year Ended June 30, 1998**

OPERATING REVENUES

Interest earned on loans receivable	\$3,794,673
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OPERATING EXPENSES

Administrative expenses	<u>724,915</u>
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OPERATING INCOME

<u>3,069,758</u>

NONOPERATING REVENUES (Expenses)

Interest earned on cash in state treasury	907,029
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Bond issuance expense	<u>(39,426)</u>
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Total nonoperating revenues (expenses)	<u>867,603</u>
--	----------------

NET INCOME

3,937,361

RETAINED EARNINGS AT BEGINNING OF YEAR

<u>7,509,066</u>

RETAINED EARNINGS AT END OF YEAR

<u><u>\$11,446,427</u></u>

The accompanying notes are an integral part of this statement.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
 MUNICIPAL FACILITIES DIVISION
 DEPARTMENT OF ENVIRONMENTAL QUALITY
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND

Statement of Cash Flows
 For the Year Ended June 30, 1998

Cash flows from operating activities:

Operating income	\$3,069,758
Adjustments to reconcile operating income to net cash flow provided by operating activities - changes in assets and liabilities:	
Increase in loans receivable	(26,832,599)
Increase in liabilities	76,938
Net cash provided by operating activities	<u>(23,685,903)</u>

Cash flows from capital and related financing activities:

Bond proceeds	4,000,000
Bond payment	(4,000,000)
Bond issuance expense	(39,426)
Contributed capital - Environmental Protection Agency	27,005,218
State General Fund	7,202,442
Net cash provided by capital and related financing activities	<u>34,168,234</u>

Cash flows from investing activities -

interest received on cash in state treasury	<u>907,029</u>
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Net Increase in Cash 11,389,360

Cash at Beginning of Year 16,137,935

Cash at End of Year \$27,527,295

The accompanying notes are an integral part of this statement.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Notes to the Financial Statements
For the Year Ended June 30, 1998

INTRODUCTION

The Louisiana Department of Environmental Quality (DEQ) is a department of the State of Louisiana. DEQ was created in accordance with Title 30, Chapter 11 of the Louisiana Revised Statutes of 1950 as a part of the executive branch of government. DEQ is charged with environmental protection within the State of Louisiana.

The Municipal Facilities Revolving Loan Fund (MFRLF) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act). The MFRLF Program presently operates under Louisiana Revised Statutes (R.S.) 30:2078-2088. These statutes establish a state revolving loan fund capitalized by federal grants (Capitalization Grants for State Revolving Funds Program, CFDA 66:458), by state funds when required or available, and by any other funds generated by the operation of the clean water revolving loan fund. DEQ is authorized to engage in activities regarding the sums on deposit in, credited to, or to be received by the state revolving loan fund. The Municipal Facilities Division, within DEQ, is responsible for the operations of the MFRLF Program in the State of Louisiana. The Municipal Facilities Division provides assistance to municipalities in the development, financing and implementation of wastewater treatment management plans and plants. Engineering, environmental assessment, design, inspection, grant management and financial services are provided by the Municipal Facilities Division on eligible wastewater treatment projects. All efforts are directed toward improving water quality by assisting communities in providing wastewater treatment processes that meet established effluent limits and achieve the goals of the Clean Water Act.

The MFRLF does not have any full-time employees. However, the time spent on the MFRLF by employees of the department is captured and the MFRLF subsequently reimburses DEQ for their salaries and benefits and other operating expenses of the fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements represent activity of a fund of the State of Louisiana that is administered by the Louisiana Department of Environmental Quality, a department within state government. The Municipal Facilities Revolving Loan Fund is part of the primary government of the State of Louisiana and is reported as an enterprise fund within the State of Louisiana's general purpose financial statements.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
Notes to the Financial Statements (Continued)

B. FUND ACCOUNTING

The Municipal Facilities Revolving Loan Fund uses an enterprise fund (proprietary fund) to report on its financial position and results of operations. The enterprise fund accounts for the activities relative to making and collecting loans for the planning, design, construction and rehabilitation of wastewater treatment facilities for the various municipalities within the State of Louisiana.

C. BASIS OF ACCOUNTING

The proprietary fund is accounted for using a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operations of this fund are included on the balance sheet. The Municipal Facilities Revolving Loan Fund uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time the liabilities are incurred.

Under the provisions of GASB Statement No. 20, the Municipal Facilities Revolving Loan Fund follows the pronouncements of the GASB and has elected not to follow Financial Accounting Standards Board guidance issued subsequent to November 30, 1989.

D. BUDGETS AND BUDGETARY ACCOUNTING

The Municipal Facilities Revolving Loan Fund is budgeted annually by the Louisiana Legislature through the Ancillary Appropriations Act. The Ancillary Appropriations Act (Act 1430 of 1997) authorized expenditures of \$46,283,288 for the MFRLF for fiscal year 1997-98 and allows the fund to retain resources to fund future loans and eligible program activities. Because the fund is an enterprise fund, a budgetary comparison is not required nor presented in the financial statements.

E. LOANS RECEIVABLE

The Municipal Facilities Revolving Loan Fund is operated as a direct loan program. The program is one that provides loans and other financial assistance to municipalities (cities, towns, political subdivisions) for the purpose of constructing publicly owned treatment works, implementing nonpoint source pollution management programs and developing and implementing estuary conservation and management plans.

The program lends federal and state monies directly to municipalities. The federal share is 80% and requires a state matching share of 20%. Recycling of principal and interest repayments from borrowing municipalities allows the program to operate in

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
Notes to the Financial Statements (Continued)

perpetuity thereby benefiting other municipalities wishing to borrow in the future. Borrowers pay principal and interest directly to the loan program, and all monies are deposited directly to the program. Principal repayments can only be used to make additional loans to municipalities. Interest earnings on investments and loans can be used to make additional loans. In addition, with Environmental Protection Agency (EPA) approval, interest earnings on investments and loans are used to pay off revenue bonds sold to capitalize the program by providing state matching funds.

The loans made by the Municipal Facilities Revolving Loan Fund must be made at or below market interest rate with a repayment period not exceeding 20 years plus an interim construction-financing period. The current loan rate is 3.45% interest for new sewer construction/sewer system rehabilitation projects. Several loans have been made at higher interest rates and the program has the ability to change its interest rates as necessary.

As evidence of its obligations to pay principal and interest on the loans, each borrower must have in place or establish a dedicated revenue source for repayment of the loan. Collections of the revenue source dedicated to repayment of the loan must be equal to 133% of the loan amount for sales tax revenues, 125% for sewer users fees or ad valorem taxes, or 100% for general obligation bonds. Each loan recipient is also required to set up a debt service reserve fund equal to one year's principal and interest for the purpose of paying principal and interest should the dedicated revenues be insufficient for that purpose.

Because of the reserve requirements and the absence of any delinquent loans, there is no provision for uncollectible amounts.

F. CONTRIBUTED CAPITAL

The funds drawn from the EPA capitalization grants authorized by Title VI of the Federal Water Quality Act of 1987 and the state matching funds are recorded as contributed capital.

2. CASH

As reflected on Statement A, the fund has cash totaling \$27,527,295 at June 30, 1998. All monies of the fund are deposited with the State Treasurer's Office. Cash balances are held and controlled by the state treasurer and are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by generally accepted accounting principles are included within the State of Louisiana's financial statements.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
Notes to the Financial Statements (Continued)

3. DUE FROM OTHERS

As shown on Statement A, the Fund has a total due from others of \$3,911,093. This is comprised of the following:

Due from the federal government	\$2,869,569
Due from municipalities	<u>1,041,524</u>
Total due from others	<u><u>\$3,911,093</u></u>

Of the \$1,041,524 due from municipalities, \$901,524 is interest and \$140,000 is principal on loans.

4. LOANS RECEIVABLE

The Fund makes loans to qualified political subdivisions of the State of Louisiana for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. Effective interest rates on loans vary between 2.45% and 5%, and are generally repaid over 20 years starting within one year after the project is completed. Details of loans receivable as of June 30, 1998, are as follows:

Completed projects	\$62,835,564
Projects in progress	<u>69,704,296</u>
Total	<u>132,539,860</u>
Less current maturities (principal)	<u>140,000</u>
Loans receivable, net, June 30, 1998	<u><u>\$132,399,860</u></u>

Loans mature at various intervals through October 1, 2019. The scheduled principal payments on loans maturing in subsequent years are as follows:

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
Notes to the Financial Statements (Continued)

	Completed Projects	Projects in Progress	Total
Year ending June 30:			
1999	\$2,306,263	\$3,927,269	\$6,233,532
2000	3,265,995	4,195,509	7,461,504
2001	3,055,729	4,417,100	7,472,829
2002	3,157,037	4,392,000	7,549,037
2003	3,268,944	4,525,810	7,794,754
Thereafter	47,781,596	48,246,608	96,028,204
Total	<u>\$62,835,564</u>	<u>\$69,704,296</u>	<u>\$132,539,860</u>

Loans to Major Local Governments

As of June 30, 1998, the Fund had made loans to 16 local governments that, in the aggregate, exceeded or equaled \$4.5 million for each municipality. The outstanding balances of these loans represent approximately 79% of the total loans receivable as follows:

<u>Local Government</u>	<u>Authorized Loan Amount</u>	<u>Balance on Loans Outstanding</u>
St. Charles Parish	\$23,300,000	\$8,658,810
Natchitoches	18,624,559	14,744,685
Lafayette	18,400,000	13,537,177
Kenner	12,890,677	11,820,000
Bogalusa	10,500,000	2,361,609
Bastrop	7,500,000	6,930,000
Gonzales	7,500,000	4,774,860
New Iberia	7,000,000	5,897,085
Bossier City	6,500,000	3,931,607
Jennings	6,500,000	5,605,814
Rayne	6,450,000	4,883,596
Springhill	6,300,000	4,554,836
Caddo-Bossier Port Commission	6,250,329	5,775,000
Leesville	4,710,000	4,330,000
Ruston	4,637,282	3,932,535
Crowley	4,500,000	2,972,191
Total	<u>\$151,562,847</u>	<u>\$104,709,805</u>

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
Notes to the Financial Statements (Continued)

**5. REIMBURSEMENTS DUE TO
MUNICIPALITIES FOR CONSTRUCTION**

At June 30, 1998, 12 approved loan disbursement requests were in process. These payment requests totaled \$3,945,293 and were disbursed to the following loan recipients in July 1998:

<u>Recipients</u>	<u>Amount</u>
Gonzales - Payment 11	\$562,000
St. Charles Loan Number 2 - Payment 6	438,384
Donaldsonville - Payment 21	12,600
Iberia SD Number 1 - Payment 26	318
Bogalusa Number 2 - Payment 4	283,863
New Iberia - Payment 28	371,308
Slidell - Payment 9	401,020
Gonzales - Payment 12	573,313
Bossier City - Payment 6	1,004,056
Port Allen - Payment 3	134,555
Springhill - Payment 28	83,614
Thibodaux - Payment 10	80,262
Total	<u><u>\$3,945,293</u></u>

6. LONG-TERM OBLIGATIONS

The Municipal Facilities Revolving Loan Fund by statute is allowed to incur indebtedness but not allowed to issue bonds directly. To provide state matching funds when direct cash appropriations were not available, the Louisiana Department of Environmental Quality received approval from the EPA to borrow matching funds. The Secretary of the Department of Environmental Quality, through a Resolution by Executive Order pursuant to R.S. 30:2078 *et seq.*, was authorized, for state matching purposes, to borrow through the issuance of the department's note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for the department and the state. The serial bond issue is called Louisiana Public Facilities Authority Taxable Revenue Bonds (Municipal Facilities Revolving Loan Fund Match Project) Series 1995. This indebtedness is secured solely from the pledge of a portion of the revenues received by the department from loans made by the program. This bond issue expires on November 1, 2001, but may be canceled by the department with no prepayment premium or penalty at any time.

The LPFA is a public trust and public corporation organized and existing for the benefit of the State of Louisiana. In accordance with the \$15,000,000 Loan Agreement between the LPFA

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
Notes to the Financial Statements (Continued)

and the department and in accordance with the \$15,000,000 Indenture of Trust between the LPFA and First National Bank of Commerce, the trustee, the LPFA has issued serial bonds for \$14,000,000 and has been repaid the \$14,000,000. As of June 30, 1998, a total of \$13,676,271 has been generated for matching fund purposes by the issuance of these serial bonds. There remains \$1,000,000 in serial bonds available for issuance and future draws for state matching funds. The department may have the LPFA/Trustee issue and draw these funds as needed for state matching purposes.

During the year, the LPFA issued a \$4,000,000 serial bond. The department, after deductions for costs of issuance and related legal fees of \$39,427, received \$3,960,573 from this serial bond, which was deposited into the Fund and on the same day the Fund repaid the \$4,000,000 serial bond. No liability exists at June 30, 1998.

**7. CONTRIBUTED CAPITAL AND
RETAINED EARNINGS**

The Municipal Facilities Revolving Loan Fund has been awarded 11 federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH). These grants are authorized by Title VI of the Federal Water Quality Act of 1987 and require matching funds from the state. As of June 30, 1998, the EPA has awarded grants of \$175,983,673 to the state, of which \$124,632,614 has been drawn for loans and administrative expenses. The state has provided matching funds of \$37,429,857. The following summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

<u>Year</u>	<u>Grant Amount</u>	<u>Cumulative Dollars Drawn as of June 30, 1997</u>	<u>Current Fiscal Year Draws</u>	<u>Cumulative Dollars Drawn as of June 30, 1998</u>	<u>Remaining Grant Dollars Available as of June 30, 1998</u>
1988	\$12,000,000	\$12,000,000		\$12,000,000	
1989	10,368,765	10,368,765		10,368,765	
1990	10,725,264	10,725,264		10,725,264	
1991	22,560,714	22,560,714		22,560,714	
1992	21,359,349	21,359,349		21,359,349	
1993	21,129,174	20,613,304	\$515,870	21,129,174	
1994	13,110,372		13,110,372	13,110,372	
1995	13,540,230		13,378,976	13,378,976	\$161,254
1996	22,179,267				22,179,267
1997	6,820,400				6,820,400
1998	22,190,138				22,190,138
Total	<u>\$175,983,673</u>	<u>\$97,627,396</u>	<u>\$27,005,218</u>	<u>\$124,632,614</u>	<u>\$51,351,059</u>

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
Notes to the Financial Statements (Continued)

The state has provided its required matching share of federal grant awards through appropriations of General Fund and state capital outlay funds. Cash contributions from General Fund and capital outlay appropriations have totaled \$23,753,586. In addition, part of the required matching share has been provided through the issuance of Revenue Match Bonds secured by revenue of the fund. Beginning in fiscal year 1995, revenue bonds of \$15,000,000 were authorized. As of June 30, 1998, bonds totaling \$14,000,000 have been issued and repaid resulting in net proceeds of \$13,676,271 being used as state matching funds. An additional \$1,000,000 in bonds will be issued and repaid in fiscal year 1999. As of June 30, 1998, matching contributions are as follows:

	Cumulative State Match as of June 30, 1997	1998 Contribution	Cumulative State Match as of June 30, 1998
State cash contribution	\$16,551,144	\$7,202,442	\$23,753,586
Revenue bond proceeds	9,715,698	3,960,573	13,676,271
Total	<u>\$26,266,842</u>	<u>\$11,163,015</u>	<u>\$37,429,857</u>

<u>Components of Contributed Capital and Retained Earnings</u>	<u>Amount</u>
Contributed capital:	
Environmental Protection Agency	\$124,632,614
State of Louisiana match	23,753,586
Total contributed capital	<u>148,386,200</u>
Retained earnings - unreserved:	
Cumulative loan interest earnings	11,847,996
Cumulative treasury interest earnings	3,793,545
Administrative fee deposit	260,911
Cumulative administrative expenses	(4,132,297)
Cumulative bond issuance expenses	(323,728)
Total retained earnings	<u>11,446,427</u>
Contributed Capital and Retained Earnings	<u>\$159,832,627</u>

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
Notes to the Financial Statements (Concluded)

8. RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by legislative appropriation. The Municipal Facilities Revolving Loan Fund has no lawsuits outstanding at June 30, 1998.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133**

The following pages contain a report on compliance with requirements applicable to the Capitalization Grants for State Revolving Loan Funds Program and on internal control over compliance with the requirements applicable to the program, as required by *Government Auditing Standards*, issued by the Comptroller General of the United States, and by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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March 16, 1999

Report on Compliance With Requirements Applicable to the Capitalization
Grants for State Revolving Loan Funds Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133

MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

Compliance

We have audited the compliance of the Louisiana Department of Environmental Quality - Municipal Facilities Division - Municipal Facilities Revolving Loan Fund with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to the Capitalization Grants for State Revolving Loan Funds Program (CFDA 66.458) for the year ended June 30, 1998. Compliance with the requirements of laws, regulations, contracts, and grants applicable to this major federal program is the responsibility of the Louisiana Department of Environmental Quality - Municipal Facilities Division management. Our responsibility is to express an opinion on the Louisiana Department of Environmental Quality - Municipal Facilities Division - Municipal Facilities Revolving Loan Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the Environmental Protection Agency's *Clean Water State Revolving Loan Fund* audit guide. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance, with the types of compliance requirements referred to above that could have a direct and material effect on the Municipal Facilities Revolving Loan Fund, occurred. An audit includes examining, on a test basis, evidence about the Municipal Facilities Revolving Loan Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Louisiana Department of Environmental Quality - Municipal Facilities Division - Municipal Facilities Revolving Loan Fund's compliance with those requirements.

In our opinion, the Louisiana Department of Environmental Quality - Municipal Facilities Division - Municipal Facilities Revolving Loan Fund complied, in all material respects, with the

EXHIBIT A

LEGISLATIVE AUDITOR

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
MUNICIPAL FACILITIES DIVISION
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Compliance and Internal Control Report

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requirements referred to previously that are applicable to its Capitalization Grants for State Revolving Loan Funds Program for the year ended June 30, 1998.

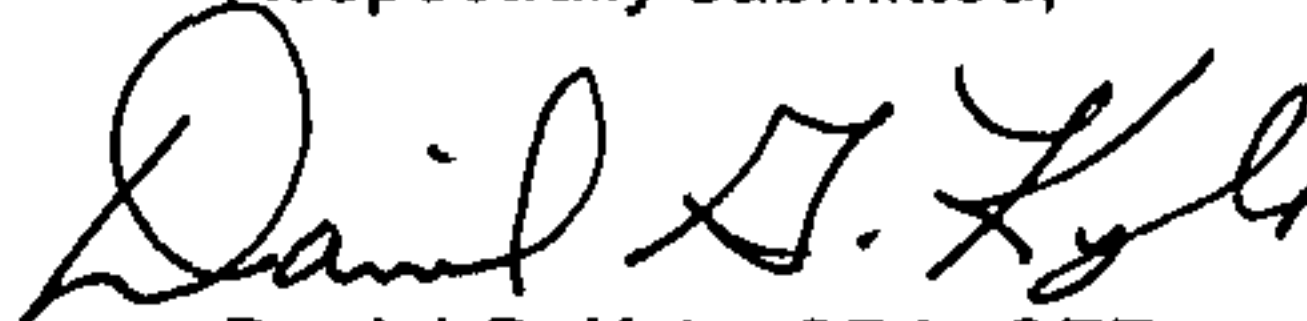
Internal Control Over Compliance

The management of the Louisiana Department of Environmental Quality - Municipal Facilities Division - Municipal Facilities Revolving Loan Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program. In planning and performing our audit, we considered the Louisiana Department of Environmental Quality - Municipal Facilities Division - Municipal Facilities Revolving Loan Fund's internal control over compliance with requirements that could have a direct and material effect on its Capitalization Grants for State Revolving Loan Funds Program (CFDA 66.458), in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to this federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management of the Louisiana Department of Environmental Quality and the federal awarding agency. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

VWW:WMB:RCL:ss
[MFRLF]

EXHIBIT A